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Outline for Briefing Folder for
NSA's Use at the CMEP on
the Problem of US Economic Defense Policy

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SECRET**A. Background of EDAC's Review**

The first comprehensive review of U.S. economic defense policy, since the institution of U.S. and international strategic trade controls, has proceeded intermittently for more than two years under the direction of the CPEP. The present paper (EDAC D-127/5) is the result of the EDAC drafting effort initiated pursuant to the assignment made at the CPEP meeting on 31 July 1956 (EDAC D-121/1). Its presentation at this time stems from the recent exchange of memoranda between the Chairman of CPEP and EDAC in which Mr. Randall urged that the policy paper be made available now. International developments during the past few months and their implications for the strategic trade control program have made mandatory the early determination of a definitive U.S. policy.

B. The present policy paper differs from CPEP 501/6 in that it provides 1) for a relaxation in multilateral controls toward Communist China (with no change in U.S. unilateral policy); 2) for treating individual Eastern European satellites less severely than the USSR when conditions indicate they are moving toward greater independence; 3) general additional flexibility to meet foreseeable political and economic pressures.

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C. Intelligence Conclusions Bearing on EPAC D-127/1, Recommendations
for Overall Economic Defense Policy

1. Paragraph 1

The growth of the war potential of the Sino-Soviet Bloc would not be measurably improved in the absence of any existing multilateral trade controls except for selected items on the munitions and atomic energy lists. Trade controls have not affected the share of Sino-Soviet production allocated to implements of war although controls may have postponed the achievement of certain quality levels in the military product. TAB G contains agreed reference to the impact of controls and TAB H current estimates of Bloc GNP and foreign trade.

2. Paragraph 4

There has been no identifiable impact of U.S. unilateral controls on the European Soviet Bloc. U.S. unilateral controls against Communist China impose a cost to that country in the form of loss of potential foreign exchange of some \$50 million, almost 2/3 of the direct cost to China of the present control structure. See TAB I for a summary of the direct and indirect effects of the China control structure upon China and the Soviet Bloc.

3. Paragraph 5

Despite recent increases in tension between the Sino-Soviet Bloc and the West, the present international system of controls commands at best lukewarm support in the non-Communist world outside the U.S. TAB G, paragraph 32 ff elaborates this judgment.

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4. Paragraph 6

The National Intelligence Estimate on Satellite Cohesiveness and Stability (in process) is completely consistent with paragraph 6 of the policy statement.

5. Paragraph 7

Only three Western nations other than Finland may be in an area characterized as "in danger of becoming excessively dependent" upon Soviet trade: Iceland, Afghanistan and Egypt. General comment on the extent of dependence is at TAB J.

6. Paragraph 8

The impact of the international differential controls on China (CHINCOM) amount to about \$35-40 millions annually, largely occasioned by increased transport cost. The impact of U.S. unilateral controls amounts to about \$90 millions annually. These controls have an additional impact upon the European Soviet Bloc of some \$40 to \$65 millions, again occasioned by increased transport cost of China deliveries. In no known instance do the international differential controls deny goods to China which are not denied to the European Soviet Bloc. See TAB I for additional detail.

7. Paragraph 11

The NIE on the European Satellites (see 4 above) is completely consistent with such a course of action.

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8. Paragraph 14

The course of action* is not a criticism of the availability of intelligence materials but a request that the economic defense community attempt to make intelligence materials more useful in international discussions both for policy and enforcement purposes. The action poses a problem that can never be completely solved because there will always be useful negotiating or prosecuting material which will not be releasable to foreign nationals or will require certain delays in sanitization.

9. Paragraph 21

The proposed China differential would consist only of items controlled quantitatively (IL II) or under surveillance (IL III) to the rest of the Bloc. Items on the present consolidated China Special List (old China Special List plus items removed in 1954) are to be decontrolled, except for items with such security impact as to warrant their addition to the regular international lists indicated above.

State admittedly cannot make up its collective mind. One side of the Department would favor concurrence, the other side, disapproval. The Secretary has not been available to make the top-level decision required. The Secretary of the Treasury has been fully occupied with the budget message, and has not been available to give his required decision. TAB I indicates detail which may be called for in connection with the impact of suggested action.

* Admiral Delany advised me on 29 January that Mr. Randall's staff opposed the insertion of this item as being inappropriate in a policy statement and that this action would be taken in any event.

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